Tech Mahindra (TECMAH)

CMP: ₹ 1,728 | Target: ₹ 2,000 (16%) | Target Period: 12 months | **BUY**

January 19, 2026

Large deal momentum boosts growth outlook...

About the stock: Tech Mahindra (TechM) has over 1.50 lakh+ employees across 90 countries serving 1000+ clients in the Communication, BFSI, Manufacturing, Hi-tech, Healthcare & Retail sectors.

Q3FY26 Performance: TechM in Q3FY26 reported a revenue of US$1,610 mn, up 1.5% QoQ/ 2.7% YoY (up 1.7% QoQ / 1.3% YoY in CC terms). EBIT margin was up ~ 100 bps QoQ/~300 bps YoY to 13.1%. Adjusted PAT (ex-one-off from new labour code) stood at ₹1394.4 crore, up 17% QoQ/42% YoY.

Investment Rationale

- **Broad-based recovery led by strong execution:** The quarter marked TechM's strongest operational performance in three years aided by the ramp-up of a large European automotive client which is expected to normalise next quarter. With broad-based recovery across most verticals and geographies, barring temporary BFSI softness (-6.2% QoQ) due to furloughs and productivity pass-throughs, strength in Communications (+2.8% QoQ), Manufacturing (+2.2% QoQ), Retail (+4% QoQ) and Healthcare (+3% QoQ), signals overall improving demand traction. Importantly, growth was driven by core services and large deal execution rather than one-offs which supports a structurally stronger growth profile versus the past. Accordingly, **we expect US$ revenue to grow at CAGR of 6.9% over FY26-28E.**

- **Margin upside from operational discipline and AI-led mix:** Margin expansion was driven largely by execution levers under Project Fortius, including pricing discipline, utilization improvement, automation and a better revenue mix, rather than volume alone, SG&A optimization, and improved fixed-price project productivity. With AI increasingly embedded across large enterprise engagements and client programs moving from pilots to scaled deployments, TechM is improving the quality and durability of revenues. Management's confidence in reaching mid-teens EBIT margins by FY27 appears achievable, supported by operating leverage from large deal ramp-ups and sustained cost discipline. **We bake in EBIT margins of 12.5%/ 14.4%/14.9% for FY26E/ FY27E/FY28E.**

- **Landmark mega deal to drive strong growth visibility**: TechM's deal momentum has meaningfully improved with **TCV of US$ 1,096 mn,** up 34% QoQ/ 47% YoY - the **highest quarterly deal wins in five years - and a standout >US$500 mn multi-year mega deal** with a leading European telecom operator. The engagement spans large-scale application modernization across CIO and CTO domains, reinforcing TechM's leadership in the communications vertical. **With delivery expected to commence from H1FY27, this provides strong medium-term revenue visibility.** A robust LTM deal run-rate and expanding large-client contribution underpin confidence in sustained above-peer growth.

Rating and Target Price

- We maintain our **BUY rating, with target price of ₹2,000 (vs ₹1,680 earlier); valuing it at 23x P/E on FY28E EPS.**

Result Update

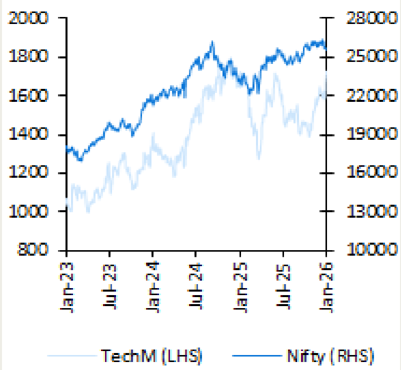
ICICI Securities – Retail Equity Research

Particulars	Amount
Market Cap (₹ Crore)	1,53,284
Total Debt (₹ Crore)	471
Cash & Inv. (₹ Crore)	7,435
EV (₹ Crore)	1,46,320
52 week H/L	1736/ 1209
Equity capital	442
Face value (₹)	5

Shareholding pattern

	Mar-25	Jun-25	Sep-25	Dec-25
Promoters	35	35	35	35
FII	23	23	21	21
DII	32	32	35	35
Public	10	10	10	10

Price Chart



Key risks

- Lower than expected revenue growth and margin expansion;
- Slower than expected TCV to revenue conversion

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Key Financial Summary

(₹ crore)	FY23	FY24	FY25	5 Years CAGR (FY20-25)	FY26E	FY27E	FY28E	3 years CAGR (FY25-28E)
Net sales	53,290	51,996	52,988	7.5	56,420	61,139	65,809	7.5
EBIT	6,072	3,147	5,138	4.8	7,055	8,804	9,806	24.0
EBIT Margin (%)	11.4	6.1	9.7		12.5	14.4	14.9	
Adj. Net Profit	4,831	2,358	4,252	2.2	5,131	6,694	7,603	21.4
EPS (₹)	54.8	26.7	48.0		57.8	75.7	86.0	
P/E	31.6	64.8	36.0		31.5	22.8	20.1	
RoNW (%)	17.3	8.8	15.5		18.3	21.6	21.8	
RoCE (%)	20.5	12.6	18.6		22.1	26.0	26.5	

Source: Company, ICICI Direct Research

Performance highlights and outlook

- **Revenue Performance:** TechM reported revenue of US$1,610 mn, up 1.5% QoQ/ 2.7% YoY (up 1.7% QoQ / 1.3% YoY in CC terms). In rupee terms, the revenue stood at ₹14,393 crore, up 2.8% QoQ/up 8.3% YoY.
- **Geography performance**: Geography wise on a QoQ basis America (40.5% of mix), and Europe (25.6% of mix) grew by 3.1% and 2.2% while ROW (23.9% of the mix) de-grew by 2.3%.
- **Segment performance**: Segment wise on a QoQ basis, Others (3.7% of the mix), Retail transport & logistics (8.7% of the mix), Hi-Tech & Media (13% of the mix), Healthcare & Lifesciences (7.4% of the mix), Communications (33% of the mix) and Manufacturing (18% of the mix) grew by 7.6%, 4%, 3%, 3%, 2.8% and 2.2% while BFSI (15.5% of the mix) declined by 6.2%.
    - **Communication:** Demand conditions appear to be stabilising in the US, while Europe is witnessing vendor consolidation opportunities. TechM is gaining share in such consolidation deals, supported by its end-to-end capabilities in the communications vertical. Comviva continues to stand out as a differentiated software asset and is witnessing healthy traction.
    - **BFSI:** Growth in financial services was impacted by elevated furloughs and productivity pass-through during the renewal of an India-based infrastructure contract. That said, management highlighted that underlying deal momentum in BFSI remains healthy.
    - **Manufacturing:** The company is seeing strong traction in aerospace and industrial segments in the US. Q3FY26 growth was aided by the ramp-up of a large European automotive client which is expected to normalise next quarter. While US automotive remains cautious, management expects demand to improve over the medium term.
- **Margin performance**: EBIT margin was up ~ 100 bps QoQ/~300 bps YoY to 13.1% on the back of Project Fortius led operational efficiency, SG&A optimization, and improved fixed-price project productivity. Reported PAT stood at ₹1,122 crore, down 6% QoQ/ up 14% YoY while adjusted PAT (ex-one-off from new labour code) stood at ₹1394.4 crore, up 17% QoQ/ 42% YoY.
- **Outlook: Management reiterated its aim to outperform large-cap peers in FY27,** driven by improving deal wins, market share gains in communications leading to faster vertical growth versus FY26, and faster growth in USD 20 mn run-rate accounts through cross-sell and up-sell. **EBIT margin guidance of 15% by end-FY27 was reaffirmed, supported by improving gross margins.**
- **TCV Performance:** It won a **TCV of US$ 1,096 mn,** up 34% QoQ/ 47% YoY. (vs. an average of US$ 792 mn for the last four quarters). This growth was led by a **100% net new mega deal of USD 500mn+** won in the Communications vertical from an existing client who is a leading European telecommunications services provider for modernisation of applications across CIO and CTO domains. **The company expects this deal to gradually ramp-up over FY27 starting Q1FY27.**
- **AI/GenAI:** Client AI engagements are increasingly moving from pilot phases to scaled, multi-year programs embedded within operating models. TechM, along with Forrester, released a white paper outlining a new pricing framework that distinctly separates human effort from AI agents, which is currently being piloted with select clients. Management noted that a meaningful AI agent revenue contribution will materialise over time.
- **Headcount & Attrition**: The total headcount decreased by 3,098 employees to 1,49,616. The attrition rate at 12.3%, was down ~50 bps QoQ. TechM is releasing talent by driving productivity in fixed-price contracts. The company is repurposing this talent in other projects.

Exhibit 1: Quarter Performance

	Q3FY26	Q3FY25	YoY (%)	Q2FY26	QoQ (%)	Comments
Revenue (₹ crore)	14,393	13,286	8.3	13,995	2.8	Revenue inched up by 1.7% QoQ and 1.3% YoY in CC terms.
Employee expenses	10,028	9,456	6.0	9,916	1.1	
Gross Margin	4,366	3,830	14.0	4,079	7.0	
Gross margin (%)	30.3	28.8	151 bps	29.1	118 bps	
SG&A expenses	2,000	2,021	(1.0)	1,911	4.7	
EBITDA	2,366	1,809	30.8	2,168	9.1	
EBITDA Margin (%)	16.4	14	283 bps	15.5	94 bps	
Dep. & amort.	473.7	458.8	3.2	468.7	1.1	
EBIT	1,892	1,350	40.1	1,699	11.3	
EBIT Margin (%)	13.1	10	298 bps	12.1	100 bps	EBIT margin was up ~ 100 bps QoQ/~300 bps YoY to 13.1% on the back of Project Fortius led operational efficiency, SG&A optimization, and improved fixed-price project productivity
Other income (less int.)	(115)	(59)	94.1	(37)	209.8	
PBT	1,777	1,291	37.6	1,662	6.9	
Tax paid	387	309	25.2	458	(15.5)	
PAT	1,122	983	14.1	1,194	(6.1)	
Adjusted PAT	1,394	983	41.8	1,194	16.7	Adjusted PAT excludes one-off from new labour code of ₹272.4 crore

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

		FY26E			FY27E		FY28E
(₹ Crore)	Old	New	% Change	Old	New	% Change	Introduced
Revenue (USD mn)	6,370	6,402	0.5	6,779	6,831	0.8	7,312
Revenue	55,757	56420	1.2	59,995	61139	1.9	65,809
EBIT	6,841	7055	3.1	8,459	8804	4.1	9,806
EBIT Margin (%)	12.3	12.5	23 bps	14.1	14.4	30 bps	14.9
PAT	5,012	5131	2.4	6,442	6694	3.9	7,603
Diluted EPS (₹)	56.6	57.8	2.4	72.8	75.7	3.9	86.0

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 1: Profit and loss statement ₹ crore

(Year-end March)	FY25	FY26E	FY27E	FY28E
Net sales	**52,988**	**56,420**	**61,139**	**65,809**
Growth (%)	2	6	8	8
COGS (empl. exp.)	38,085	39,695	42,859	46,066
Gross profit	14,904	16,725	18,281	19,743
S,G&A expenses	7,912	7,785	7,520	7,897
Total Operating Exp.	45,997	47,481	50,379	53,963
EBITDA	**6,991**	**8,940**	**10,761**	**11,846**
Growth (%)	41	28	20	10
Depreciation	1,853	1,885	1,956	2,040
Interest	322	329	280	270
Other Income	855	247	577	793
PBT	5,672	6,973	9,101	10,328
Total Tax	1,400	1,827	2,366	2,685
Exceptional item	-	(272)	-	-
PAT	**4,252**	**4,858**	**6,694**	**7,603**
Growth (%)	80	14	38	14
EPS (₹)	48.0	54.8	75.7	86.0

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement ₹ crore

(Year-end March)	FY25	FY26E	FY27E	FY28E
Profit before Tax	5,672	6,973	9,101	10,328
Add: Depreciation	1,853	1,885	1,956	2,040
(Inc)/dec in Current Assets	(929)	(1,046)	(1,444)	(1,429)
Inc/(dec) in CL and Provisions	663	790	1,087	1,075
Taxes paid	(1,474)	(1,827)	(2,366)	(2,685)
CF from operating activities	**5,786**	**6,586**	**8,037**	**8,807**
(Inc)/dec in Investments	38	-	-	-
(Inc)/dec in Fixed Assets	(483)	(858)	(930)	(1,001)
Others	191	247	577	793
CF from investing activities	**(23)**	**(612)**	**(354)**	**(209)**
Issue/(Buy back) of Equity	9	-	-	-
Inc/(dec) in loan funds	(1,075)	-	-	-
Dividend paid & dividend tax	(3,842)	(4,130)	(3,732)	(3,732)
Inc/(dec) in debentures	-	-	-	-
Finance charges	(264)	(329)	(280)	(270)
CF from financing activities	**(5,799)**	**(4,808)**	**(4,362)**	**(4,352)**
Net Cash flow	(37)	1,166	3,322	4,247
Cash by acquisition	-	-	-	-
Opening Cash	4,736	4,542	5,688	9,010
Cash carried to B/S	**4,542**	**5,688**	**9,010**	**13,257**

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet ₹ crore

(Year-end March)	FY25	FY26E	FY27E	FY28E
Liabilities				
Equity Capital	442	442	442	442
Reserve and Surplus	26,919	27,648	30,611	34,482
Total Shareholders funds	27,362	28,090	31,053	34,924
Minority Interest	430	425	469	517
Total Debt	471	471	471	471
Other long term liabilities	4,029	4,029	4,029	4,029
Total Liabilities	**32,292**	**33,016**	**36,023**	**39,942**
Assets				
Net Block	3,899	3,223	2,546	1,857
Capital WIP	21	21	21	21
Investments	3,182	3,182	3,186	3,194
Deferred tax assets	1,857	1,857	1,857	1,857
Goodwill on consolidation	7,699	7,699	7,699	7,699
Debtors	11,547	12,295	13,323	14,341
Loans and Advances	-	-	-	-
Other non-current assets	4,667	4,663	4,663	4,664
Cash	4,542	5,688	9,010	13,257
Other current assets	4,658	4,959	5,374	5,785
Total Current Assets	23,679	25,874	30,640	36,314
Trade payables	4,411	4,696	5,089	5,478
Current liabilities	6,515	6,937	7,517	8,091
Provisions	1,277	1,360	1,473	1,586
Total Current Liabilities	12,203	12,993	14,080	15,155
Net Current Assets	11,477	12,881	16,560	21,159
Application of Funds	**32,292**	**33,016**	**36,023**	**39,942**

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios

(Year-end March)	FY25	FY26E	FY27E	FY28E
Per share data (₹)				
EPS	48.0	54.8	75.7	86.0
BV	308.5	316.7	350.1	393.7
DPS	45	47	42	-
Cash Per Share	51.2	64.1	101.6	149.4
Operating Ratios (%)				
EBIT Margin	9.7	12.5	14.4	14.9
PAT Margin	8.0	9.1	10.9	11.6
Return Ratios (%)				
RoE	15.5	18.3	21.6	21.8
RoCE	18.6	22.1	26.0	26.5
RoIC	20.7	28.9	36.5	41.2
Valuation Ratios (x)				
P/E	36.0	31.5	22.8	20.1
EV / EBITDA	20.9	16.2	13.2	11.6
EV / Net Sales	2.8	2.6	2.3	2.1
Market Cap / Sales	2.9	2.7	2.5	2.3
Price to Book Value	5.6	5.5	4.9	4.4
Solvency Ratios				
Debt/EBITDA	0.1	0.1	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.3	1.3	1.3	1.3
Quick Ratio	1.3	1.3	1.3	1.3

Source: Company, ICICI Direct Research

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